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McNair, William N.

The Pittsburgh tax plan

Pittsburgh

1916

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The Pittsburgh Tax Plan



By
William N. McNair
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The Pittsburgh Tax Plan

By W. N. McNair

For many years the policy of Pennsylvania has been to make as light as possible the tax burdens on industry. In 1889 it exempted from taxation by the State so much of the capital employed in manufacturing within its boundaries. In 1911 it exempted from municipal taxation machinery of all kinds in cities of the second class (Scranton and Pittsburgh); and in 1915 extended this provision to cities of the first class (Philadelphia.)

In 1913 the legislature applied this idea of encouraging industry in a somewhat broader manner by periodically lowering the taxes on buildings in second class cities. Under this provision in this act Pittsburgh in fixing the tax rate for 1916, placed 12.60 mills on the land and only 10.08 on the buildings. This twenty per cent reduction will continue for three years, when the rate on buildings will be thirty per cent less than on land, and this will continue until the rate on buildings will be one-half that on land.

There is a strong movement among other cities of the State to secure similar legislation and a bill passed the Senate at the last session applying this tax idea to third-class cities.

Mayor I. W. Stratton, of Reading, says in the National Municipal Review of April, 1915: "The provision for gradual exemption of fifty per cent of the building and improvement valuation which the State legislature included in their act of May 15, 1913, was a wise one which ought to be extended to all municipalities."

A bill has been introduced in Congress to try this in the District of Columbia, so the experiment of Pittsburgh in this line is receiving some attention. That industry will be encouraged in our city by this law seems to be conceded: just as all men agreed that the policy of the State in taking the taxes off machinery and exempting manufactories from State taxes was of benefit to the people.

In recent article Charles H. Ingersoll commented on the Pennsylvania tax system as follows:

"There are signs of dawning intelligence. Pennsylvania has the grace to exempt machinery used in production and stocks of goods in stores, and has recently passed a bill giving certain cities the right—which they are acting on—of further exempting personality and improvements, and imposing additional local taxation on land values, the only common fund legitimately subject to taxation. When this movement gets well under way it will mean hard competition for her neighbor states. I know manufacturers who are already considering removal to Pennsylvania."

But this tax law has some other results which are gradually developing. It is found that it automatically raises the taxes upon land. The assessed valuation of the buildings of Pittsburgh is two hundred ninety-eight million. Reducing the millage on this valuation ten per cent every three years require the raising of the millage on land valuation. This is not noticeable when land is improved, for then the owner gets the benefit of the low taxes on the building, but when land is vacant it has a considerably increased tax burden.

The proposition of placing more of a tax on land values is not new to Pennsylvania. In fact, it is but the necessary and logical result of lowering taxes on the products of labor and industry. For as Hamilton well said, "You must tax either land or commerce." Our State has been lowering the tax on commerce (production) and so of course has a much heavier tax on land. In 1782 Robert Morris, one of the early financiers of the State wrote the following proposal as to land value tax in a letter to Congress:

And first, as to a tax. The advantages of it are, that is can be reduced to a certainty as to the amount and time. That no extraordinary means are necessary in order to ascertain, it and that land being the ultimate object of human avarice, and that species of permanent property, which peculiarly belongs to a country as neither to be removed or concealed, it stands foremost for the object of taxation, and ought most particularly to be burdened with those debts, which have been incurred by defending the freedom of its inhabitants. But besides these general reasons, there are some which are in a manner peculiar to this country. The land of America may, as the proprietors, be divided into two kinds; that which belongs to the great land owners, and that which is owned and occupied by the industrious cultivators. This latter class of citizen is, generally speaking, the most numerous and most valuable part of a community.

A land tax will probably at the first mention startle this order of men, but it can only be from the want of reflection, or the delusion must be kept up by the artifice of others. To him who cultivates from one to five hundred acres, a dollar per hundred is a trifling object, but to him who owns a hundred thousand it is important. Yet a large proportion of America is in the hands of great land holders, they monopolize it without cultivation; they are for the most part at no expense either of money or of personal service to defend it, and keeping the price higher by monopoly than otherwise it would be, they impede the settlement and culture of the country. A land tax therefore would have the salutary operation of an agrarian law without the iniquity. It would have further advantage of encouraging settlement and population; this would redound not only to the national good, but even to the particular good of the land holders themselves."

This was the early policy in Pennsylvania, as shown by the proceedings of the Provincial Council of January 30, 1683:

When the vote was put to the assembly: "As many as are of the opinion that a public tax upon the land ought to be raised to defray the public charge say 'Yea,'" it was carried in the affirmative, with none dissenting.

What are the conditions in Pittsburgh today? Do they warrant the laying of a land tax as did the early conditions as described by Morris?

During the last session of the Legislature there was a great deal of discussion concerning the bill under which the revision of the tax system is taking place; whether it was a benefit or a detriment to the city; and whether it ought to be repealed. There probably will be just as much discussion at the coming session; and the various trade bodies will have just as exciting debates; so it might be well to consider the purposes of this law; which its advocates had in mind when it was first introduced in the legislature:

FIRST—To encourage building.

SECOND—To discourage holding land idle.

The question has been asked: Are these of sufficient importance to change the tax laws?

As to the first let us consider whether it would be worth while to encourage building in Pittsburgh.

Do we need more buildings?

Are rents high?

Do we need better buildings?

It is hard to find a small house at a moderate rent in Pittsburgh. There is a great demand for a five-room house in the residential section of the city and particularly, near the mills. It would be worth while to encourage the building of small houses to supply this demand. Increasing the supply of houses would automatically lower rents. Rents are high in Pittsburgh. In Baltimore, Philadelphia and Cleveland first class dwelling houses can be had for \$18.00 to \$20.00, while here they are scarce at \$25.00 to \$35.00 per month.

Increasing the supply of homes would create more jobs. Carpenters, masons, bricklayers, plumbers, painters and paper-hangers all obtain employment when there is building activity. When artisans are steadily employed times are better for the shopkeepers and tradesman.

It is a gentle inducement to improve land holdings when the owner has his taxes raised 10% at certain intervals of time. The holder will begin to think of getting in some revenue to pay these increased taxes on the land. Men are holding land idle in the residential sections of Pittsburgh, such as: Squirrel Hill, Morningside and East Liberty and outer Allegheny and the South Hill, distinctly as a speculative proposition. They are

holding it in the hope that values will go up. Of course they calculate that these ventures will cost them something in the way of tax bills each year, but the increase in the selling value is expected to be much more than the taxes.

The amount of their profit depends upon business conditions, whether other land owners are holding out for high prices, and whether the increase in population and prosperity creates a large market for the lots. If business sections would move in their direction the profit would be much greater, and as long as there is profit in sight the land will be held by the speculators. Increasing the taxes on the land makes it more difficult to hold it idle. While the majority of the holders may be able to pay the ten or twenty per cent increase in the land tax, there are some who have mortgaged their holdings and can not meet the taxes and estates whose trustees do not think it good business to do so. They let go their holdings at a low price, this spoils the market for the others, and they do not see the profits which seemed so plain before; and so conclude it best to let go.

It is a matter of psychology. "A" knows that the taxes are being raised on the other fellows and the other fellows are debating on the same question he is, and he finally; to hold on at a high figure appearing to be folly; either converts a non-paying investment into a producing one by building a house upon the lot and renting it, or by selling the lot to someone who can make use of it.

Where we once saw unsightly heaps of rubbish we now see pleasant new homes. Then is it not a good thing to discourage the idle holding of idle land?

Let us look at this question from the standpoint of high rent. We hear a great deal about the high cost of living. The blame is placed largely on the tariff. This has something to do with it no doubt. The late British war budget raised the duties on tea eight cents per pound, and tobacco three cents an ounce; the next day pipe tobacco went up four cents an ounce and in all the tea shops tea sold for five cents a cup instead of the previous price of four cents. But all over England there are rent-strikes because of the great advance in the rate of rents. How much is a duty of a few cents on semi-luxuries compared with the raising of rents of five or six room houses from \$20.00 to \$30.00 per month; which has been going on in our cities in the last five years. The tariff is removed from sugar and it goes down one cent per pound in price; that means a saving of ten cents per month to the young couple who use ten pounds of sugar during that period of time. They pay \$30.00 a month rent for their flat and yet they are more interested in the tariff on sugar than they are in the proposition to cut the rent of similar flats to twenty-five or twenty dollars a month. Yet the difference in their relative importance is just the difference between ten cents and ten dollars every month.

On land selling at one hundred dollars a front foot the house builder must get the interest on \$3,000.00 or \$15.00 per month from the land alone. If the same lot could be bought at \$35.00 a front foot he would only need to get the interest on \$1,050.00 or \$5.00 per month, leaving him the same return on his house whether the land value was high or low with more certain return from the lower priced land and less capital at stake.

Most of the lots now held in residence sections at a prohibitive price of one hundred dollars per front foot as purely speculative holdings, with the full force of the act of 1913 in effect will certainly come down to their true rental value of about twenty dollars a front foot. If every family in Pittsburgh could be saved ten dollars a month would not the high cost of living come down? If store rentals were reduced would not the table cost less? If factory sites could be rented cheaper would not the employer have more of a surplus for the wage fund?

High rents are the bane of a city and are the direct cause of the poverty and distress of our people and if this law will tend in any way to lower these rents or prevent them from going higher it certainly deserves our support.

Let us consider the law from the standpoint of wages. What fixes wages? If there are few factories and many idle men wages will be low for men will be bidding for jobs and bidding against one another. If land owners refuse to sell land for factories near the railroads and rivers there will be few factories. If mills can only locate in a town by leasing land at high figures for short terms and with prospect of an advance in the rate on renewal, few will locate and those who do will be in bad financial condition all the time. It is plain therefore that raising the millage on the vacant sites would force them on the market at a lower rate and more factories would come into existence. With the number of mills and factories increased there would be more jobs in proportion to the men, and wages would go up. Employers would be better able to pay higher wages for the taxes would be reduced on his buildings and equipment and the rents on his ground would be less.

Many men prefer outside work to factory work. When the building is brisk and the demand for carpenters, bricklayers and laborers is heavy there is not such a large supply of workmen for the factories.

Do we need better buildings?

If a man finds that his taxes will be cut to one-half he will be encouraged in putting up a better building whether it be for his own use or for an investment. The majority of men would keep their homes up-to-date and in better condition but they know as soon as they brighten up that the assessor comes along and raises their assessment. With a law such as this in force that fear would be removed and they would know that the millage would be only one-half which would be more than enough to offset a raise in the assessment.

Walk out Penn avenue to Lawrenceville and see the miserable shacks that ought to be replaced by decent buildings. The side streets are no better—Carson street, East Ohio street, Woods Run, out Forbes, the Hill District—all have tenement after tenement that ought to be torn down, some about ready to fall down. And some out Forbes street have already been torn down; yet you can not blame the owners for not building good buildings in their place because the high taxes on buildings would so cut into the rents as to make the buildings a poor investment.

Ought we discourage the holding of idle land? Is idle land a detriment to the community?

On reflection it would seem that it is. At least we can say that idle land is of no benefit to the community. As one of our grocers in East Liberty put it, at a meeting of the Board of Trade.

"You can not sell goods to a vacant lot." It is a great deal better to have an acreage divided into fifty-foot lots, each with a bungalow upon it, than to have the entire extent lying idle.

Schenley Farms is of more good to the community with fine residences and institutions located there than the wild and unsightly patches of ground many of us can remember when it was being held idle by the Schenley Estate.

Next Spring there would be twice the number of houses erected if land could be had at one-half the price that vacant lot holders are asking today. High priced land holds back building. People can not build unless they have a lot to build on. With available lots at five hundred dollars many more homes will be built than at the present time with the same lots at two thousand dollars each. This was shown when they lowered the price of the lots in the Westinghouse Plan. They were taken up rapidly and many building permits were taken out. With more buildings, residences and stores going up, the demand for all kinds of workers increases. Stone masons are needed for the foundations; carpenters for the structure work; brick layers, plumbers and painters, etc., for their respective departments. With the increased demand for these artisans wages are bound to go up. The working men of Pittsburgh ought to be intensely interested in the new tax law because it will raise his wages and lower his rents.

No one should be against this law except the vacant lot speculators. They are the only ones who can lose by the extension of its provisions. The business man will get increased trade, the mill owner will have less overhead expenses, the worker will have higher wages and lower rents.

Certainly it is worth while for Pittsburgh whether we look at it from the standpoint of the general good or merely for our own best interest; we ought to see that this tax law is so sustained by an enlightened public opinion that no one will advocate its repeal.

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